The text of Nakajima's plan for global economic recovery

Below is the full text of the 1977 Global Infrastructure Fund proposal issued by the Chairman of the Mitsubishi Research Institute, Masaki Nakajima.

1) Summary

Under the prolonged worldwide recession in the post-oil crisis years, every country around the world is today groping for ways to get out of it.

What is being proposed herein as the "Global Infrastructure Fund" is a concept that Japan should consider as one of its international responsibilities in these crucial circumstances, and it is being presented by a private research organization having a neutral position.

The proposition is to generate effective demand within this century amounting to more than $500 billion, a sum equivalent in current prices to the U.S. costs of World War II, under the assumption that all leading advanced industrialized countries and oil producing nations cooperate to do so. The proposition may be aptly termed a "Global New Deal," since it has the nature of public investments for common use by the world which go beyond a given national economy. It aims at developing new sources of energy and increasing food production for the world, thereby trying to establish long-range programs to overcome the current worldwide stagflation.

It is expected that the implementation of the various "super projects" proposed herein would lead to the development of peaceful demand in the manufacturing industry as well as of technological incentives in advanced countries in lieu of arms production. Also expected would be the multiplier effects upon the national income and employment of many developing countries which would be recipients of these proposed projects.

It is to be recognized that the lapse of 30 years since the end of World War II has seen the resurgence of narrow-minded nationalism in various parts of the world, which in turn has fomented political and economic uncertainties. Now is the time for mankind to positively assert a bold and long-range vision. And that vision should be the one based upon a worldwide perspective which transcends narrow or short-term national interests. As Solomon said, where there is no vision mankind perishes.

The 20th century has undergone bitter experiences in two world wars, yet has endeavored to re-establish a prosperous society out of the ruins of each war. The Global Infrastructure Fund, as proposed herein, will address itself toward the coming 21st century as a challenge to mankind for worldwide prosperity in rising out of the deep recession.

2) Background: international economic situation

The world economy today faces its gravest crisis since World War II. Although ways to escape from it or to bring about a change in direction have been sought for the last several years, confusion continues to increase. Eagerly awaited is the framework of a new economic theory, coupled with a bold vision and propositions for economic policies based upon it that may dispel the economic stagnation that is otherwise expected to prevail for a long time to come. However, up to now no such new propositions have been made.

As is generally known, Keynesian economic theory, born out of the world crisis in the 1930s, has provided theoretical support for economic policies and, in particular, the anti-cyclical policies adopted by the major advanced industrialized nations since World War II. As we look back today at Keynes' contributions to economic policy, we find that first and foremost among them was his incisive criticism and refutation of the fiscal and monetary policies based on the classic gold-standard system and their failures. It was the managed

currency theory advocated by Keynes that brought about the Bretton Woods system after World War II and the subsequent gold-dollar linked system in the field of international monetary policy. It also led to various effecive measures in domestic monetary policies.

Second was the policy of the stimulation of effective demand. The counter-cyclical policies adopted by the major advanced industrialized nations since the latter half of the 1950s rested, in part, on policies for the maintenance of growth through an effective stimulation of demand in the Keynesian fashion, or the New Economics fashion which developed from it.

The Keynesian policy for stimulating effective demand operated with good results for 30 years after the war. Recently, however, its various inherent problems have become subject to discussion.

The first of these is that a policy for the stimulation of effective demand contains, by its very nature, an inflationary trend. Keynes was famous for his criticism of conservative economists who showed great zeal for hoarding gold but paid little heed to unemployment. Keynesian economic policies, however, gave rise to inescapable inflationary pressures on the economy.

The second problem was that such a policy led to increased restraints on the supply of resources by increasing consumption, both in terms of quality and of quantity, in all countries. The inflationary trend that was encouraged by growth policies was called a mere creeping inflation so long as these restraints on the supply of resources did not arise. But, a genuine inflation became evident when human and other resources necessary for growth became restricted (for instance, in West Germany and Japan), where natural and environmental resources were utilized to the utmost and full employment prevailed. The worldwide simultaneous rise in prices, which arose from the large increase in oil prices toward the end of 1973, may be described as a corollary of the Keynesian New Economics of the 1960s.

The third problem is that the relative importance of fiscal expenditure in the economic structure of major advanced industrial nations is no longer dominant. As we look at the ratio of government fixed capital formation to gross national expenditures (GNE), we find that, except for its 8 to 9 percent range in Japan and the United Kingdom, it is about 3 percent in the United States, West Germany, France, and Italy, according to 1974 figures. As a consequence, while the formation of governmental fixed capital, mainly through the improvement of the infrastructure by means of public works, may in itself have the effect of arousing total consumption, it is insufficient to serve by itself as the pivot for policies to overcome a recession.

The world panic of the 1930s was not overcome solely by the Keynesian policy of stimulating effective demand nor by President Roosevelt's New Deal policies. It is a stark historical fact that, unfortunately, rearmament and vast military expenditures caused by war itself provided the effective means to overcome this crisis. For instance, military expenditures of the United States alone in World War II amounted to $288 billion in terms of the dollar's value at that time. Converted to 1975 prices, this sum represents $530 billion (about Y159 trillion). These war expenditures represent the net increase in outlays during the conflict and do not include peacetime defense costs.

In today's world, however, the development of nuclear weapons and their deterrent effect rule out a large-scale war that would involve major industrial nations. The political and economic consequences of the Vietnam War clearly demonstrate that while a localized war can create temporary economic stimulation, it does not have long-range effects.

To overcome the present worldwide recession, there is no other way but to stimulate private business activity in the major industrialized nations. Enterprises will not invest unless they can expect profits, while the incentive for new investments has already been reduced by the stagnation in technological innovation. This situation is expected to prevail for a long time to come and it seems too early to predict what shape future technological innovation will take. Consequently, we believe that in order to allow the existing world economic system to follow a peaceful and steady course without excessive dependence on military expenditures, a type of public investment on a global scale would be strategically effective.

As we have stated before, however, all the conventional types of public investment have their limits in terms of needs and capability when looked at solely in the light of each national economy. For instance, among the advanced industrialized nations, West Germany does not require much public investment. On the other hand, while there is great need for this among the developing nations, say, in Africa and Southeast Asia, they lack the means to carry such investments through. Therefore, it will be necessary to implement New Deal policies on a global scale in order to first stimulate private business activity in the advanced industrialized nations and then extend its effect to the economies of the developing nations.

For the reasons stated above, the planning and implementation of multinational public investment on a worldwide scale should be most effective as a long-range global economic policy. It could be termed a "Global New Deal." What we mean by multinational public investment is that which involves several countries both in the execution of projects and in the scope of the benefiting areas, and wherein the period of implementation and the size of investment exceed the

scope of public investments made by a single country. Moreover, since the object of such investment would be directed at removing restraints on resources, it would also serve to eliminate latent factors causing inflation. Included, for instance, would be the development of untapped energy resources, the development of oceanic resources, and the improvement of the environment.

As examples of such projects, there are many expansive concepts that, since the last century, have been described as "Engineers' Dreams." Some of these "ideas" that could serve as objects for this proposition are listed in the adjoining map.

3) Funds

In order to realize these projects a $13 billion fund, tentatively named the Global Infrastructure Fund, will be established with, for instance, annual contributions of $5 billion collectively from the United States, West Germany, and Japan, $5 billion from the OPEC countries, and $3 billion from other industrially developed nations. Such a fund will serve to finance projects with a multiplier effect on a $25 billion scale annually until the end of this century. Total expenditures on these projects should reach a level of about $500 billion. Such an amount would not be very large for expenditures on public works of worldwide dimensions, but its purpose is to carry out a pump-priming role that would arouse effective demand comparable to the military expenditures during World War II.

The $5 billion annual contribution by the major advanced industrialized nations would mean a 30 percent increase in official development assistance (ODA) provided by the 17 member nations of the Development Assistance Committee (DAC) of the OECD, which amounted to $16.6 billion in 1975. This corresponds to a little over 3 percent of the amount of military expenditures of these 17 nations during the same year, which totalled $157 billion. It would mean that these nations would have to pare about 3 percent from their military expenditures and devote that sum to development assistance.

The OPEC nations funneled $5,590 million into the OPEC fund in 1975 for development assistance. This amount is close to the $6,880 million that the World Bank committed to spend for assistance during the same year. Moreover, the military expenditures of Middle East nations during that year were estimated to be about $28 billion. Their proposed annual $5 billion contribution therefore should not constitute an excessive burden.

4) Effects

In the planning and execution of these projects, it will be necessary to give substantial autonomy and authority to the areas where the projects take place, while at the same time maintaining the principle of international harmony. This should contribute to a further promotion of the North-South dialogue. Upon their completion, the projects will have major direct effects on the non-oil-producing LDCs through the development of energy resources to replace oil, besides increasing agricultural production and promoting the comprehensive development of such areas.

We are today faced with the urgent task of evolving means to absorb the prevailing excessive international liquidity. The accumulated oil dollars are not necessarily being effectively used at present, but should be used for the long-range preservation of oil as a valuable industrial resource. Should we fail in this effort, it is possible that it may lead to another shock similar to the well-known "Oil Crisis" of 1973. In such an event, the nations of the world will not be able to put up much political or economic resistance. This proposal could serve to check such an unwanted development.

By advocating this concept, Japan, which does not possess nuclear armaments, can curb foreign criticism that its military expenditures and foreign aid are comparatively small. We believe that such an advocacy will serve to fulfill the international responsibilities of the Japanese people who have today built up a highly industrialized society after rising from the ashes of World War II.

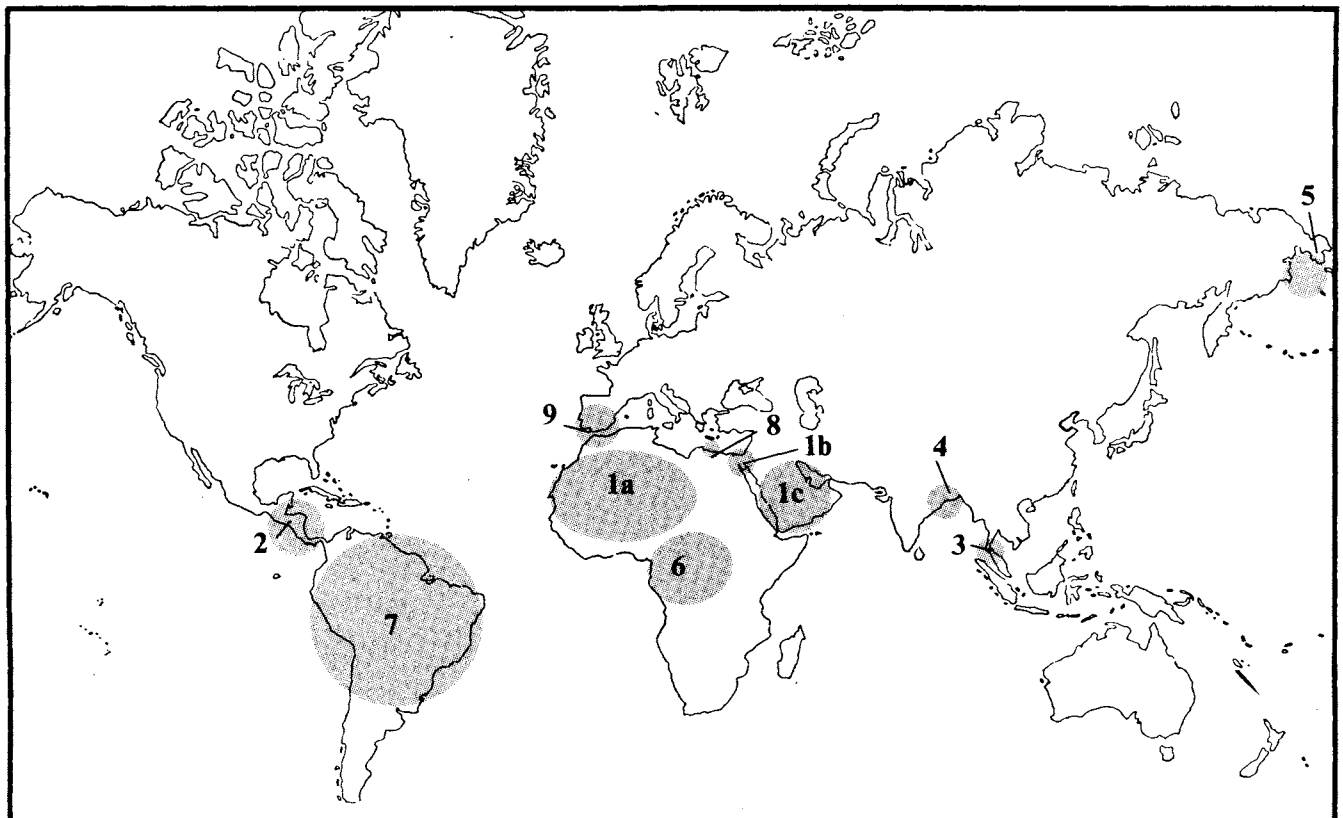
5) Methods for realization

The reason why we advocate a fund separate from those established by existing international organizations, such as the United Nations and the World Bank, is because we believe that such organizations have become the scene of international conflicts of interest, in particular between the North and the South, and are showing a strong tendency of compromise. They would not be effective in promoting this concept.

On the other hand, this concept must not be regarded as a monetary measure aimed at alleviating the accumulated foreign indebtedness of developing nations, a problem which calls for a solution today. On the contrary, as we have stated above, it has an entirely different objective and mission. We therefore believe that in order to achieve this objective in the most effective manner, an appropriate international organization is necessary. By this we do not mean that existing international organizations, led by the United Nations, are inefficient, but we believe that they are inappropriate in achieving our objective.

We believe that this brief Proposition has helped you to understand the intentions of this concept. Additional study and research into concrete proposals and methods for their realization will be necessary.

Your comments and opinions will be most appreciated.



The Mitsubishi Research Institute has drawn up a list of 12 projects, out of 110 regarded as possibilities for the GIF plan, which exemplify the massive infrastructural approach of the GIF. This list is presented as tentative and to be evaluated by experts across the world, and is not a final recommendations list.

Below is the list. The number shows where the project is located on the world map above:

1a, 1b, 1c) Greening of deserts: Greening of the deserts in the Sahara, the Sinai, and the Arabian peninsula.

2) Second Panama Canal: Construction of a large canal linking the Atlantic and Pacific Oceans in Central America, (e.g., Nicaragua or Panama,) or Mexico.

3) Kra Isthmus Canal: A 170-kilometer-long canal linking Phang-nga Bay on the west coast to the Gulf of Siam on the east coast. This would shorten by 2,400 km the sailing distance to and from the Indian Ocean.

4) Himalayan hydroelectric project: Damming of the Sanpo River on the upper reaches of the Bramaputra in the frontier area between China and the Indian province of Assam, to make it flow into India through a tunnel across the Himalayas. Potential generating capacity 50 million kw, 37 million kw in average. Annual generating capacity 240 billion to 330 billion kwh.

5) Control of sea current in the Bering Straits: Construction of a dam across the Bering Straits at their narrowest point (85 km wide, 45 m deep) and control the sea currents flowing from the Artic Ocean. This would alter atmospheric conditions in the North Pacific and make the climate more temperate.

6) African central lake: Control of the flow of the Congo River by building a dam to create a vast lake in the Congo and Chad regions of central Africa to improve natural conditions in the area.

7) Hydraulic power plant in South America: Construction of 9 dams and 7 artificial lakes across the Amazon and the Orinoco and the Paraguay. The related countries are Brazil, Venezuela, Colombia, Peru, Bolivia, Paraguay, and Argentina.

8) Qattara Depression project: Construction of the canal between El Dabba and El Sira. Construction of port at El Sira. By the flow of water through the canal, electric power is generated.

9) Gibraltar Strait bridge/tunnel: Construction of a bridge/tunnel between Morocco and Spain. European and African continents are connected through the surface transportation. The primary commodity is to be carried easily from Africa to Europe. The products of the both continents are exchanged quite easily through the bridge.

10) Collection station for solar heat: Erection of a large-scale installation for the collection of solar energy in a remote part of the world. Total investment in land, pipelines, and accessory equipment would reach $20 to $50 trillion. Its total annual energy output would be equivalent to 200 billion barrels of oil.

11) Electric power generation using sea currents: There are 12 promising areas along undeveloped ocean shores extending from the equator to the temperate zones. Maximum generating potential of one area, 35 million kw. Total for 12 areas, about 200 million kw.

12) New Silk Road: Construction of super highway, modern version of ancient "silk road" across the Eurasia continent from the central part of Europe to China.